600 NE Grand Ave.
Portland, OR 97232-2736
oregonmetro.gov

Date: May 2, 2024

To: Marissa Madrigal

Cc: Holly Calhoun, Brian Kennedy, Andy Shaw, Craig Beebe, Elizabeth Goetzinger, Rachael Lembo

From: Jane Marie Ford & Josh Harwood

Subject: Supportive Housing Services Taxes – Tax Policy Considerations

This memo reviews options for tax policy changes to both the SHS Personal Income Tax and Business Income Tax. These scenarios were shared with the Stakeholder Advisory Table:

- Increase the Personal Income Tax exemption thresholds consistent with inflation (standard tax policy)
- Reduce the rate of the Personal Income Tax
- Adjust the Business Income Tax threshold
- Adjust the Business Income Tax rate

Metro staff caution that, due to the nature of the taxes, it will not be possible to accurately forecast the revenue impact of any change. As such, **changes should be considered based on the merit and intent of the tax policy** (e.g., accounting for the impact of inflation on incomes) versus achieving specific revenue goals (e.g., offsetting personal income tax reductions with commensurate increases from the business income tax).

Based on the analysis shared below, Metro staff recommend indexing the Personal Income Tax to inflation. Furthermore, in recognition of the fact that the taxes were implemented for tax year 2021, staff would recommend a one-time resetting of the exemption levels to $175,000 for single filers and $250,000 for joint filers for tax year 2025. These exemption levels would then be adjusted further by a measure of inflation each year thereafter. This change would align with standard tax policy practices and help prevent unintended tax bracket creep (i.e., someone making median wage in 2020 would graduate into paying the tax by 2030 based on inflation alone). This option would also reduce the number of people who pay the tax, which would reduce tax collection costs (by reducing the workload for the Tax Administrator, the City of Portland Revenue Division). The main tradeoff is less tax revenue than would otherwise be collected.

Personal Income Tax policy considerations

The two major mechanisms are to 1) increase the thresholds for income subject to the tax and/or 2) change the rate of the tax applied to that income. The combination of these changes will impact the total number of people who pay the tax, how much they pay, the one-time and ongoing workload of tax administration, and the total revenue collected.

To help illustrate the potential impacts, advantages, and disadvantages of the different tax relief options, this memo uses Tax Year 2021 filing data as of November 2023 as a baseline. This is the most “complete” data available but continues to change with enforcement actions adding new (late) filers. **However, this data may not be representative of the actual impact in any given year** of the tax for several important reasons:

- A substantial number of filers each year experience a one-time or irregular life event that pushes their income above the SHS tax threshold for a single year (e.g., selling a home or business).
- Those with the highest incomes generally have more fluctuation in their annual incomes since less comes from salaries and wages and more comes from capital gains, business income, rents, etc.

Figure 1. Summary figures from Tax Year 2021 Personal Income Tax Collections as of November 2023

	# of Accounts	Amount
Single Filers (taxable income > $125,000)	19,308	$ 33,229,276
Joint Filers (taxable income > $200,000)	45,686	$ 142,074,472
Total Tax Year 2021 Collections	**64,994**	**$ 175,303,748**

Personal Income Tax Exemption Thresholds:

Currently, the Personal Income Tax applies to Metro taxable income above $125,000 for single filers and $200,000 for couples filing jointly. These tax thresholds were established in 2020 with the intent to affect only higher-earning individuals and families. However, the current tax policy does not adjust the thresholds for inflation. This means that more people will be required to pay the tax over time due to inflation rather than an actual increase in purchasing power, and that more income will be subject to the tax.

The table below shows the estimated reduction in both the number of filers and total revenue based on changing the income thresholds to different levels. These estimates are based on Tax Year 2021 data and should be considered illustrative due to the challenges described above. Metro staff's recommended initial exemption level, which was used to model estimates for the SAT, is in green.

Figure 2. Estimated reduction in the number of filers and tax collections based on different exemption levels, based on Tax Year 2021 data.

Estimated Impact Based on Tax Year 2021 Data								
	Joint: $225,000		**Joint: $250,000**		**Joint: $275,000**		**Joint: $300,000**	
	Change in # of filers	Impact in Millions	Change in # of filers	Impact in Millions	Change in # of filers	Impact in Millions	Change in # of filers	Impact in Millions
Single: $150,000	(11,500)	$ (14.8)	(16,600)	$ (23.9)	(20,900)	$ (31.9)	(24,700)	$ (38.9)
Single: $175,000	(15,100)	$ (17.9)	(20,300)	$ (27.0)	(24,600)	$ (35.0)	(28,400)	$ (42.0)
Single: $200,000	(17,400)	$ (20.3)	(22,600)	$ (29.4)	(26,900)	$ (37.4)	(30,700)	$ (44.3)

Personal Income Tax Rate Adjustments:

Currently, the tax applies a 1% rate to Metro taxable income above the established thresholds. The table below shows the impact of reducing the rate to 0.90% and 0.95% under two scenarios:

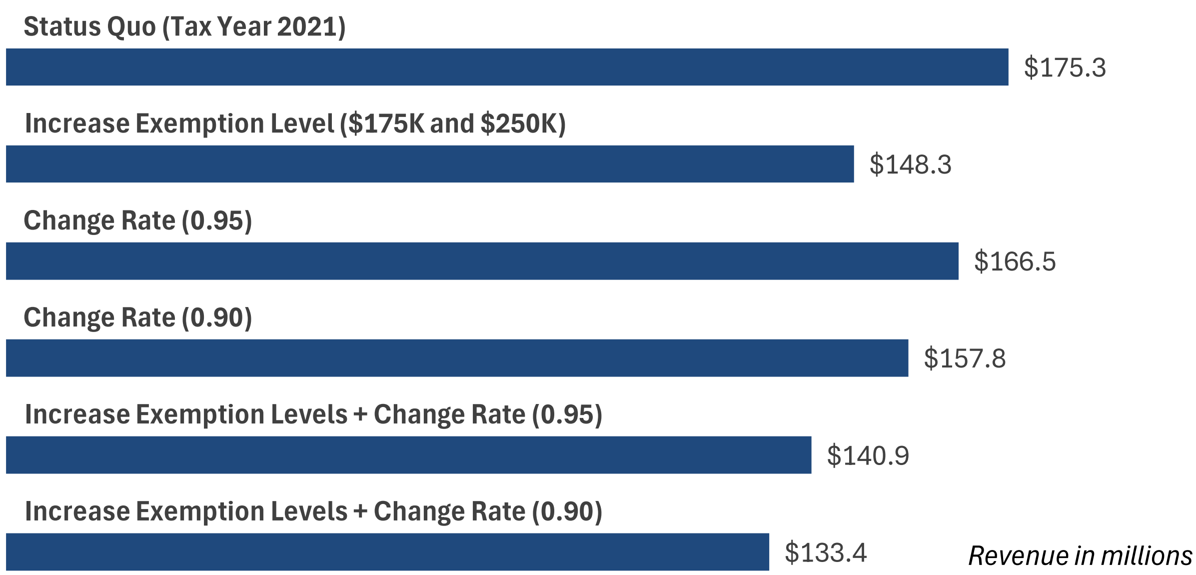
- Using the current exemption levels, which does not impact the total number of people who filed taxes in 2021 but reduced the amount of revenue they would have paid.

- Using the recommended $175,000 and $250,000 exemption levels, which reduces the number of people who would have been required to file, the amount of income that would have been subject to the tax, and the rate applied to that income.

Figure 3. Estimated reduction in the number of filers and tax collections at different rate changes and exemption levels, based on Tax Year 2021 data.

Estimated Impact Based on Tax Year 2021 Data			
Exemption Level	**Rate**	**Change in # of filers**	**Impact in Millions**
Current: Single, $125,000; Joint, $200,000	**0.90 Rate**	-	$ (17.5)
	0.95 Rate	-	$ (8.8)
Indexed to Inflation Single, $175,000; Joint, $250,000	**0.90 Rate**	(20,300)	$ (41.9)
	0.95 Rate	(20,300)	$ (34.4)

Figure 4. Estimated revenue generated under different scenarios, using Tax Year 2021 data.



Business Income Tax policy considerations

The SHS Business Income Tax is a 1% rate on Metro taxable income and applies to businesses that are located or otherwise sell into the Metro region that have at least $5 million in gross receipts in total. For entities that generate income from multiple locations, the business must apportion their net income based on the percent of sales in the Metro region.

Figure 5. Summary figures from Tax Year 2021 Business Income Tax Collections as of November 2023

Business Income Tax	# of Accounts	Amount
Tax Year 2021 Collections	**6,834**	**$ 113,692,883**

The Stakeholder Advisory Table expressed interest in scenarios that provided relief to businesses, as well as those that shifted the tax burden away from the Personal Income Tax toward the Business Income Tax. **The mechanisms for impacting business taxpayers would either be to change the gross receipts threshold or the rate that applies to the tax.**

As a simple calculation for determining impacts, each 0.1% change in the business rate equals $10-$15 million.

It is challenging to model the potential revenue impacts of these changes, and even harder to quantify how this would affect specific payers:

- The legal definition of how a business is formed impacts how the business and/or individual as the business owner interacts with the SHS tax system.
- Businesses self-report gross receipts on their tax return. While we can cross-reference the SHS personal income tax return data with State of Oregon returns, we are not able to verify the business gross receipts figures. As such, we are hesitant to use the business tax return data to estimate which businesses would no longer be required to pay the tax if the gross receipts threshold was increased above $5 million. Moreover, gross revenue can change significantly each year due to acquisitions, business formations, etc.
- Theoretically, increasing the business income tax rate could help offset revenue loss from increasing the exemption thresholds and/or reducing the rate for the personal income tax. However, while we could model this rate increase based on Tax Year 2021 return data, the actual impact would fluctuate based on the economy.

For context, it is worth noting that the majority of business tax revenue comes from a very small number of accounts. In FY 2022-23, 62% of business tax revenue came from accounts that paid more than $100,000 in taxes. These accounts were less than 4% of total business taxpayers. As such, increasing the threshold may result in relief for some businesses with nominal impact on total revenue collections. In comparison, increasing the BIT tax rate (or lowering the gross receipts threshold) to “offset” PIT revenue losses does not align with the governor’s moratorium on new taxes and will likely be met with both constituent and business community resistance.

Administrative Considerations

Changes to the taxes will require some administrative workload ranging from minimal programming changes (i.e., changing the rate) to re-engaging Turbo Tax with form changes and a new education campaign to describe the changes (e.g., multiple changes to who is taxed and/or how). Increasing the BIT tax rate would have a nominal impact on administrative or collections costs as the number of businesses filing would not be increased or reduced. Staff would recommend engaging with the City of Portland Revenue Division once details of a proposal have been determined to best understand how changes might impact administrative costs.